

Tuesday, Feb. 28, 2006
Vol. 22, No. 04

Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Help! Microsoft is Targeting My Business, Part II of II

by Michael Mace, Rubicon Consulting

In Part I of this article, we talked about the importance of preventing Microsoft from capturing a beachhead in your market. In this part, we'll discuss the tactics that some companies are using successfully to hold Microsoft at bay.



*Variable pay leaves CTOs
sitting pretty
See pages 4-6.*

One tactic you shouldn't count on to save your bacon is a lawsuit. After making a push during the Clinton administration, the regulatory authorities in the US have become very hands-off toward Microsoft. The European Union is more activist, but even there the legal process is very slow and unpredictable. You shouldn't bet the survival of your company on it.

Besides, it's not your only hope.

Part of the mystique of Microsoft is that it eventually kills any company it targets. The folk-tale that Microsoft will get a product right by the third version feeds the belief that resistance is futile. But today that's more of a demoralizing myth than a reality. Some companies have found ways to force Microsoft through a lot more than three versions, or to dominate their markets so thoroughly that it's not clear if Microsoft will ever catch up. Some winning tactics include alliances, changing the rules of the competition, building up a passionately loyal customer base, innovating faster, and using aggressive marketing to lock up a market. Below are examples of each in action.

Alliances: IBM and the Linux world. Even for a company as large as IBM, it can be difficult to fight Microsoft on your own. IBM tried in the 1990s with OS/2 and lost. That failure helped drive IBM out of the PC business, but it turns out to have been a tactical retreat. IBM refocused on tech services, and is building an ecosystem of allies capable of standing against Microsoft as a group. The Open Source and Linux communities can move faster than any individual company, but in their natural state have trouble coordinating their efforts. IBM works behind the scenes to provide that coordination, and contributes its own engineering talents to help Linux grow, i.e., Eclipse. And of course all that software needs someone to provide services built on top of it, which

(continued on page three)

Publisher & Managing Editor
Merrill R. Chapman
rickchapman@softletter.com
860/663-0552

Editor
Donald K. Rosenberg
don@softletter.com
919/687-4172

Editor Emeritus
Jeffrey Tarter
jtarter@softletter.com
617/668-0028

Editorial office
Soft•letter
34 Sugar Hill Rd.
Killingworth, Conn.
06419
860/663-0552

Subscription office
United Communications
Group
11300 Rockville Pike
#1100
Rockville, Md. 20852
301/287-2718
866/313-0973
customer@softletter.com

www.softletter.com

What We Have Here Is a Failure to Communicate, Part II of II

by Debbie Engnell, PromoPipeline

Throughout the purchasing cycle, 93% of business professionals reportedly use the Internet during some phase of research, and 37% do both researching and purchasing online. Most significantly, however, 64% of business professionals say they use search engines as a main resource to find products and services and these numbers are growing. (Source: www.navtej-kohli.com.)

This high level of search activity creates a huge opportunity for business-to-business advertisers who are increasing online advertising spending as the burgeoning Internet ad industry continues to grow from an estimated \$5.6 billion in 2005 to \$11 billion by 2008. So what are the key indicators of a high-performing vertical search platform?

- **The particular audience targeted has unique needs not adequately served.** Finding product and promotion information for price-sensitive proposals is an area of extreme frustration for resellers. General search engines and vendor-specific web sites don't address the need and require the reseller to spend far too much time looking for specific results. Effective vertical search sites aggregate vendor-specific promotions, special offers and product information that allow the IT reseller to search one site quickly for the offers they need when they need them.
- **The search mission is both highly specific and success has a high value.** BTB campaigns must target specific audiences likely to become both immediate and long-term customers. Conversion rates tracked across multiple search engines show that searchers who are ready to spend most often connect to sites from niche, or vertical, search engines. In most channel selling situations, particularly in low margin items, price is the compelling factor. The most effective vertical search sites removes current barriers to reach promotions by allowing IT resellers to search multiple vendors and product lines from one location instead of each vendor's and distributor's main site.
- **The vertical search platform morphs into something more:** For instance, promotion search becomes a marketing tool (enabling personalization, target send involvement, user-generated rankings and loyalty). Most effective vertical search engines include the ability to evaluate results, including what promotions are most frequently viewed, E-mailed, and printed. In turn, these results can be formatted into marketing pieces and E-mailed to customers from within the engine itself.
- **A highly targeted audience of ready-to-purchase buyers that return to the platform.** Business searchers turn to vertical engines as a main resource because they care more about the relevancy of search results than about the number of results returned. This makes vertical engines the most effective way to generate the highest conversion rates and ROI on marketing efforts.

Vertical search engines can bring success to many marketing initiatives including promotions, product information dissemination, and name recognition. Just make sure that the one you choose can demonstrate the above and prove its ROI.

Debbie Engnell, vice president of product development, PromoPipeline, 80 Villa Road, Greenville, S.C. 29615; 866/372-0329. E-mail: dengnell@PromoPipeline.com. Website: www.promopipeline.com.

is where IBM makes its money.

Change the rules: Apple's iPod. Apple tried and failed to use Macintosh to displace the IBM PC in the 1980s and 1990s. Many observers blame the failure on Apple's decision not to license Mac clones early on. Most people would take away the lesson that you should license early, but Apple chose a different tactic with the iPod. Apple targeted an emerging market without strong competitors and created a solution combining hardware and software in unique ways that are very hard for others to duplicate. Rather than competing in Microsoft's mode of licensing software to hardware cloners, Apple competed as a systems vendor. Apple's iTunes store has about 70% to 80% of E-music sales in the US, and it's growing so fast it's not clear whether anyone will be able to catch up. Microsoft's effort to create a music player clone market have floundered, and it's now talking about making its own hardware competitor to the iPod.

Build strong bonds with your users: Intuit. Intuit is unusual, because the company received the ultimate endorsement from Microsoft—an attempted purchase. The government didn't allow that, but the market got the message: even Microsoft itself said Intuit's products were better than its own. If you can arrange for Microsoft to attempt and fail to buy your company, that's fantastic, but probably the better lesson is to emulate what made Intuit so successful in the first place—its fanatical focus on building close ties with its customers. Intuit was one of the first major companies to deploy its applications online as a service, and it has made notable use of technologies such as wikis to create a rich community dialog with its customers. Intuit doesn't just sell a product; it sells a relationship. That's a very hard thing for Microsoft to clone.

Innovate in ways they can't easily copy: Google. Google's new model of software development and marketing is very challenging to Microsoft. Rather than creating packaged software supported by ponderous engineering teams, Google delivers its software online and often assembles via the mashup model. Google maps is a great example of this—the user interface is from Google, but the underlying mapping technology and databases come from several other companies. Although the industry has focused on Google's advertising model, it's the development process used by online software services that's most challenging to Microsoft. It enables Google to release products faster than Microsoft can copy them.

Consume all the oxygen: AOL. AOL is overlooked because its core dialup business is declining. But remember that in the heyday of dialup, AOL successfully fought off a full-bore assault from Microsoft's MSN. AOL succeeded by blanketing the nation with offers for its services; all those floppies/CDs consumed most of the available customers before Microsoft was able to enter the market. As a result, AOL held onto its franchise.

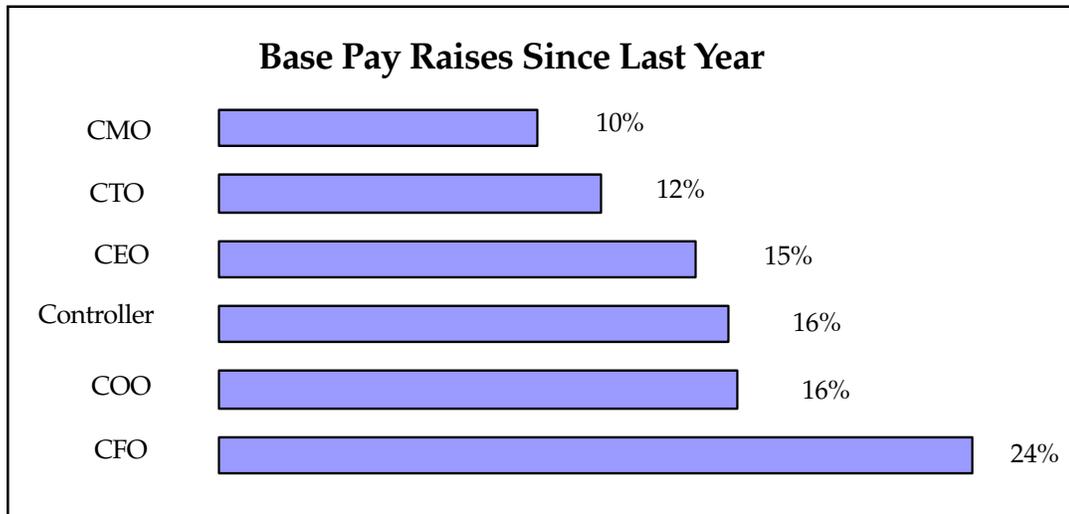
Michael Mace, principal, Rubicon Consulting, 101 Church St., Suite 22, Los Gatos, Calif. 95030; 408/395-3910. E-mail: mike@rubiconconsulting.com.

“Most of the markets targeted by Microsoft seem to be over \$1 billion in revenue. Microsoft also continues its practice of absorbing the functionality of utilities and niche products that catch its eye, but we haven't seen signs of an acceleration there.”

—Michael Mace
Rubicon Consulting

“Microsoft still excels at destroying companies that move predictably and allow themselves to be targeted. But if you're willing to change your business before the threat becomes critical, and if you use the right tactics, an assault from Microsoft doesn't have to be a death sentence.”

—Michael Mace
Rubicon Consulting



Benchmarks: CTO Compensation

Chief Technical Officers have a vital mission in young technology companies; unlike CIOs who deal with corporate infrastructure, CTOs have their fingers on the raw stuff of their companies' fortunes: technologies that are superior to the competition's in functionality, market appeal, or (preferably) both. The CTO position appears to be more stable than some others: only five of our 72 respondents were not in a CTO position last year.

The titles of the Top 50 CTOs reflect the large size of the companies represented: among the 50 there are two presidents and a chairman, 15 EVPs, 18 SVPs, and 8 VPs. Among these four groups 16 have CTO as a secondary title. Reflecting the importance of packaging a technology for market, there is growing use of the word "product" in these titles (12 instances). Of plain CTOs there are but four, and there is only one CTO who puts his VP title *after* the "CTO."

Our survey respondents are generally from smaller companies, and their titles reflect this scale: there are 18 VPs, and twice that number of CTOs. The word "product" occurs only twice among the titles, while Directors account for six of the slots.

As with other positions we have surveyed, the return of prosperity to the tech sector has caused large increases in variable pay; in the case of CTOs it is up 81% over last year. Increases in base pay for companies under \$10m are generally in line with the sector as a whole, reflecting their predominance; the larger companies have smaller increases in base pay (as for other officers in our surveys as well). The largest base pay increase is in privately-owned and -funded firms, reflecting the importance of the CTO to young ISVs. While large firms have smaller increases in base pay, in the aggregate their variable pay is 66% of their base pay, and the exercising of stock options amounts to an 80% increase in total pay (base and variable) for the lucky 23 of the 50.

Not all companies' definitive proxy statements list the compensation of the CTO figure; Novell is an example. But a few months ago Novell took on a new CTO, Jeffrey Jaffe, and his compensation package was revealed: \$450k base pay, minimum variable pay of \$225k (up to \$600k if he stays a full first year), \$300k signing bonus, and \$75k relocation expenses.

Overall CTO Compensation*	Median	Top 25%	Bottom 25%	Raise
Base Pay—current	\$142,800	\$166,500	\$115,500	12%
Base Pay—last year	\$127,500	\$160,000	\$100,000	
Variable Pay—current	\$15,000	\$37,750	0	81%
Variable Pay—last year	\$8,250	\$25,000	0	
Total Pay—current	\$160,000	\$212,500	\$127,500	14%
Total Pay—last year	\$140,000	\$187,500	\$105,000	

* Number of respondents = 72 for "current," 67 for "last year."

CTO Pay by Company Size*	Base Pay	Variable	Total	Raise
Under \$1 million—current	n/m	n/m	n/m	n/m
Under \$1 million—last year	n/m	n/m	n/m	
\$1-\$5 million—current	\$120,000	\$9,000	\$135,000	15%
\$1-\$5 million—last year	\$104,000	\$5,200	\$120,000	
\$5-\$10 million—current	\$143,400	\$23,000	\$162,500	15%
\$5-\$10 million—last year	\$125,000	\$12,500	\$140,000	
\$10-\$99 million—current	\$162,000	\$37,500	\$237,500	5%
\$10-\$99 million—last year	\$155,000	\$62,500	\$230,000	
\$100+ million—current	n/m	n/m	n/m	n/m
\$100+ million—last year	n/m	n/m	n/m	

* Number of respondents = 3 for Under \$1 million, 22 for \$1-\$5 million, 15 for \$5-\$10 million, 16 for \$10-\$99 million, and 2 for \$100+ million. Values are medians. n/m = Sample size too small for accurate comparisons.

CTO Pay by Development Stage*	Base Pay	Variable	Total	Raise
No significant customer revenue—current	n/m	n/m	n/m	n/m
No significant customer revenue—last year	n/m	n/m	n/m	
Privately owned, privately funded—current	\$130,000	\$10,000	\$145,000	20%
Privately owned, privately funded—last year	\$108,000	\$8,000	\$120,000	
Privately owned, venture funded—current	\$147,000	\$9,000	\$162,500	5%
Privately owned, venture funded—last year	\$140,000	\$7,000	\$140,000	
Public—current	\$185,000	\$70,000	\$270,000	0%
Public—last year	\$185,000	\$65,000	\$256,500	

* Number of respondents = 3 for No significant customer revenue, 46 for Privately owned, privately funded, 16 for Privately owned, venture funded, and 7 for Public. Values are medians. n/m = Sample size too small for accurate comparisons.

The Top 50: Highest Paid Public Company CTOs

		Base Pay	Variable Pay	Total	Long-Term
1	Shai Agassi , SAP	\$482,091	\$1,953,362	\$2,435,453	
2	Michael A. Myer , Rightnow Technologies	\$1,650,000	\$88,287	\$1,738,287	
3	Peter C. George , Kronos	\$277,062	\$1,163,603	\$1,440,665	\$1,395,568
4	Russell M. Artzt , Computer Associates	\$750,000	\$534,375	\$1,284,375	
5	Peter Griffiths , Cognos	\$403,491	\$601,420	\$1,004,911	
6	William H. Gates III , Microsoft	\$600,000	\$402,469	\$1,002,469	
7	Ferdinand R. Engel , Concord Communications	\$345,013	\$634,660	\$979,673	
8	Richard W. Ihrle , Intuit	\$492,019	\$407,875	\$899,894	
9	James E. Heppelmann , Parametric Technology	\$487,000	\$282,300	\$769,300	\$413,692
10	Jack Sorensen , THQ Inc.	\$367,500	\$341,890	\$709,390	\$393,582
11	Edward Y. Abbo , Siebel Systems	\$300,000	\$350,000	\$650,000	\$1,405,909
12	Dan Barnea , BMC Software	\$425,000	\$217,000	\$642,000	\$125,000
13	Raul Camposano , Synopsys	\$350,000	\$191,503	\$541,503	\$1,479,450
14	Hamid Savoj , Magma Design Automation	\$315,000	\$197,468	\$512,468	\$71,911
15	Lily S. Chang , Advent	\$270,000	\$233,494	\$503,494	
16	Vincent P. Niedzielski , QAD	\$300,000	\$182,260	\$482,260	\$354,428
17	Walter H. Potts , Mentor Graphics	\$354,375	\$120,975	\$475,350	
18	Yuval Scarlet , Mercury Interactive	\$286,250	\$165,936	\$452,186	\$1,166,879
19	Kurt J. Snapper , ManTech International	\$359,877	\$90,406	\$450,283	\$203,856
20	George C. Moon , MapInfo	\$257,657	\$184,466	\$442,123	
21	Raj Nathan , Sybase	\$340,000	\$97,508	\$437,508	\$350,813
22	Joseph Uniejewski , RSA Security	\$249,984	\$184,000	\$433,984	\$1,541,361
23	Alec Livingstone , OpenTV	\$315,000	\$117,928	\$432,928	
24	Michael Gallagher , Secure Computing	\$180,767	\$244,565	\$425,332	\$271,995
25	David Moellenhoff , Salesforce.com	\$250,000	\$169,250	\$419,250	
26	Marc Kustoff , Dendrite	\$325,500	\$84,608	\$410,108	\$279,703
27	Louis J. Attanasi , Blackbaud	\$255,000	\$137,936	\$392,936	
28	Kevin M. Lynch , Macromedia	\$250,000	\$141,000	\$391,000	\$3,394,202
29	John W. Young , MRO Software	\$215,000	\$166,963	\$381,963	
30	Paul J. Cormier , Red Hat	\$275,000	\$96,250	\$371,250	\$720,120
31	John Gomez , Eclipsys	\$363,462	\$735	\$364,197	
32	Franz X. Zihlmann , FileNet	\$257,414	\$96,384	\$353,798	\$1,134,090
33	Rafiq R. Mohammadi , Interwoven	\$200,000	\$141,840	\$341,840	
34	Girish Pancha , Informatica	\$250,000	\$91,570	\$341,570	
35	Martin Plaehn , RealNetworks	\$277,500	\$61,680	\$339,180	
36	Christopher Wong , Agile Software	\$200,000	\$129,861	\$329,861	
37	Scot K. Morrison , Wind River Systems	\$225,000	\$92,563	\$317,563	
38	Jeffrey A. Bedell , MicroStrategy	\$197,500	\$115,423	\$312,923	
39	Mark T. Carges , BEA Systems	\$306,500	\$3,000	\$309,500	\$557,938
40	Matthew V. Booty , Midway Games	\$299,615	\$4,763	\$304,378	\$231,793
41	Zoltan J. Cendes , Ansoft	\$300,000	\$3,000	\$303,000	\$3,640,000
42	Ed Murray , Witness Systems	\$200,000	\$98,700	\$298,700	\$88,146
43	Said Mohammadiouni , Intellisync	\$225,000	\$62,500	\$287,500	
44	Jonathan Otterstatter , SPSS	\$245,000	\$40,000	\$285,000	
45	John L. Steigerwald , NetIQ	\$218,333	\$59,437	\$277,770	
46	Harold M. Kester , Websense	\$221,538	\$49,806	\$271,344	\$1,480,893
47	Dwain A. Kinghorn , Altiris	\$240,573	\$24,462	\$265,035	\$1,258,066
48	Cadir B. Lee , SupportSoft	\$225,000	\$38,574	\$263,574	
49	Pervinder Johar , Manhattan Associates	\$202,253	\$57,500	\$259,753	
50	Kristin Weller Muhlner , webMethods	\$250,001		\$250,001	\$197,987

Note: The 50 individuals here received the highest annual compensation of CTOs of public software companies with a current market capitalization of \$221 million or more. "Variable" compensation includes bonuses, commissions, company-paid insurance, relocation and housing allowances, forgiven loans, memberships, profit-sharing contributions, etc. "Long-Term" compensation is income from the exercise of stock options.

Source: Company proxy statements for most recent fiscal years.

Legal Strategies: What to Expect and Who Pays, Part II of II

By Mark S. Reed, Corum Group

After receiving a first draft of the definitive agreement, the seller prepares disclosure schedules that are incorporated into the definitive agreement. These schedules play a critical role in framing exactly what the buyer is purchasing and the “condition” in which it is delivered to the buyer. The content of these schedules has enormous implications for potential future liability to which a seller may be subject. For example, the buyer might include the following representation in the schedule:

Seller has not licensed its intellectual property for use by any third party other than in transactions in the ordinary course of its business selling Software Products.

When the definitive agreement is signed this becomes an iron clad, binding statement by the seller and not qualified in any way. Any variation from this would be a breach of the definitive agreement. Now let’s say the seller did in fact license some of its IP to a third party for use in products sold only overseas. The transaction was long ago, the market far away, the third party’s product was not competitive with the seller’s products. Regardless, the overseas market may be very important to the buyer, they may have products that compete directly with the third party and the potential losses suffered by the buyer may be large. In this case, the buyer would charge the seller with breach of the definitive agreement and seek to collect the full amount due under the indemnification provisions, potentially the entire transaction proceeds received by the seller **or more**.

To avoid this problem, the seller **must** be more thorough in conducting its own internal due diligence and ask themselves “Has there **ever** been a case when we licensed **any** part of our technology to anyone else outside of the standard licenses that we have for our standard products?” Then they should prepare a Schedule X documenting the past licensing transaction with amended language that reads as follows:

Except as shown in Schedule X, Seller has not licensed its Intellectual Property for use by any third party other than in transactions in the ordinary course of its business selling Software Products”.

Mark Reed, senior vice president, Corum Group, 10500 NE Eighth St., Bellevue, Wash. 98004; 425/455-8281. E-mail: mreed@corumgroup.com.

Company/Description	Acquired by	Price/Terms	Revenues	Multiple
SecuriMetrics • Biometric software applications and services	Visage Technologies	\$28,000,000 Terms: All cash	\$15,000,000	1.87
Analyste Corporation (Finland) • Financial services software	BasWare Corporation	\$32,600,000 Terms: Cash and stock	\$11,700,000	2.79
Fluent • CAE simulation software	Ansys (ANSS)	\$565,000,000 Terms: Cash and stock	\$121,900,000	4.63
Net2Phone (NTOF) • Voice over IP software	IDT (IDT)	\$144,000,000 Terms: All cash	\$80,000,000	1.80

CORUM
MERGERS & ACQUISITIONS

Mashup Resources

(Mashups are component computing on the web; Google Map is an example of mashup technology in action. Mashups allow developers to incorporate APIs, Java code, RSS feeds, etc. into an integrated application framework.)

- **Programmableweb** (www.programmableweb.com/mashups): Site provides news, code examples, and information on developing applications for Web 2.0 APIs.
- **Mashup Camp** (www.mashupcamp.com): Website for the Mashup Camp conferences. Many useful links and much information on the latest development craze.
- **MashupFeed** (www.mashupfeed.com): Site provides an updated source of new mashups and links to relevant APIs.
- **The Web API Tracker** (www.webapitracker.com): Site provides discussions on “the loosely coupled web” and links to different mashup projects.
- **Web2.0 Workgroup** (<http://web20workgroup.com>): Site provides links to many mashup/Web 2.0 blogs.

MYSQL VP OF MARKETING ZACK URLOCKER ON THE SPREAD OF OPEN SOURCE TECHNOLOGY: “CIOs used to say, ‘Oh, we only use Unix here.’ Then they’re surprised to find their developers were already doing other things.” (Quoted in Computerworld, 02/16/2006)

ZDNET COLUMNIST DAVID BERLIND ON MASHUPS: “As one of the co-organizers of Mashup Camp, I’m getting a lot of inquiries via E-mail and from the press about what mashups are and why they’re getting so much buzz. Invariably, my response begins by evoking their memory of another technology ecosystem that exploded through the stratosphere just after exiting from its embryonic phase — one that the mashup ecosystem (or what I call the “uncomputer”) is virtually identical to: The PC.” (Quoted on <http://blogs.zdnet.com/BTL/?p=2484>, 02/26/2006, 02/26/2006)

INFORMATIONWEEK EDITOR-IN-CHIEF ROB PRESTON ON ANALYST PRACTICES: “Many of the customers we talked with, especially startup vendors that feel pressured to ‘pay to play,’ are less than comfortable with the quality and integrity of analyst research and advisory services. They don’t just suspect conflicts of interest; they have firsthand experiences with them, but they’re afraid to talk publicly.” (Quoted in InformationWeek, 02/20/2006)

MICROSOFT BLOGGER ROBERT SCOBLE ON CONFERENCE COSTS: “If you wanna do a 400 attendee conference you can do it pretty inexpensively. Gnomedex was done for about \$100 a person for years.

...But, wanna do a 1,000 attendee conference? Costs per attendee start going up exponentially. Why?

Because there aren’t many places in the world that you can hold a 1,000 attendee conference. (Quoted on <http://scobleizer.wordpress.com/2006/01/29/conferences-vcing-hot-topics-this-morning/>, 01/29/2006)

Colleagues made off with your last issue? Go to www.softletter.com. Click Subscriber Login in the upper right of the home page. To view the current issue and to search archives of hundreds of articles by keyword, topic, or issue date, log in and enjoy!

Soft•letter is published 24 times per year; entire contents copyright © 2006 by Soft•letter. All rights reserved. Reproduction by any means, without permission of the publisher, is prohibited. ISSN: 0882-3499.

Subscription rates: \$395 worldwide. Subscription office: United Communications Group, 11300 Rockville Pike, #1100, Rockville, Md. 20852-3030; tel 301/287-2718 866/313-0973 customer@softletter.com

www.softletter.com